

House Bill 1228

(As Engrossed March 19, 2013)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 89th General Assembly

Provisions of the Bill

House Bill 1228 affects the Arkansas State Highway Employees Retirement System (ASHERS).

Act 564 of 2011 changed service purchase costs for members of ASHERS to be at actuarial equivalent cost. This was implemented as a cost saving mechanism and to preserve system integrity. Before the change, the average cost of service purchases reflected roughly half of the system's true change in liability (that is, it was much less expensive). House Bill 1228 would create a two month window which makes available service purchases at the previous, lower rate for members who did not act before Act 564 became effective.

Fiscal Impact

House Bill 1228 would create actuarial losses for ASHERS over the long term as members would be paying less than the true actuarial value of their service during the two month window. The extent of the losses is highly dependent upon the number of members who take advantage of the window to purchase service.

As an example, under current law, we estimate that an age 50 member with 20 years of service would pay approximately \$16,000 to \$20,000 more per year of service relative to the cost available during the window created by House Bill 1228. These are significant savings to the members; the system would bear this cost.

The system estimates that as many as 50 people would purchase service if a purchase window were created. If 50 members with similar profiles to the person in our example were to purchase three years of service, it would cost the system approximately \$2.5 million; the additional future benefits would be more valuable than the money paid to purchase the service.

Other

Arkansas Code §24-1-105 explicitly prevents legislated benefit enhancements for state retirement systems when a system's unfunded actuarial accrued liabilities are being amortized over a period longer than 30 years. ASHERS currently has a 43.8 year amortization, and we believe that the service purchase arrangement present in House Bill 1228 could be considered a benefit enhancement. For this reason, we are uncertain that House Bill 1228 could be implemented at present.

Sincerely,

A handwritten signature in black ink that reads "Jody Carreiro". The signature is written in a cursive style with a large initial "J" and "C".

Jody Carreiro, A.S.A, M.A.A.A.
Actuary